

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 2010-03-09

GAIN Report Number: KS1005

Korea - Republic of

Food Service - Hotel Restaurant Institutional

Biennial Sector Brief 2010

Approved By:

Michael Fay, Director

Prepared By:

Sangyong Oh

Report Highlights:

Large-scale franchise restaurants and broad-line distributors continue a rapid growth at the expense of small scale, independent businesses. There is an increased demand for products with new taste, added value, consistent quality, and specifications catered for the food service industry. These changes, coupled with possible implementation of Korea-United States Free Trade Agreement, offer new opportunities to American suppliers.

Post:
Seoul ATO

Author Defined:

Table of Contents

Section I. Market Summary

- A. Executive Summary
- B. Advantages and Challenges for U.S. Exports

Section II. Roadmap for Market Entry

- A. Entry Strategy
 - A-1. Understanding Local Tastes
 - A-2. Consumption Trends
 - A-3. Establishing Korean Partners
 - A-4. American-Origin Restaurant Franchises
 - A-5. Sell Recipe Ideas First, Not Products
- B. Market Structure: Distribution Channel
 - B-1. Logistics
 - B-2. Traditional Distributors
 - B-3. Broad-line Distributors
 - B-4. Food Processors
 - B-5. Discount Retail Stores
- C. Sub-Sector Profiles
 - C-1. Hotel Segment
 - C-2. Restaurant Segment
 - C-3. Institutional Restaurant Segment

Section III. Competition

Section IV. Best Product Prospects for U.S. Exporters

- A. Products Present in the Market Which Have Good Sales Potential

- B. Products Not Present in Significant Quantities But Which Have Good Sales Potential
- C. Products Not Present Because They Face Significant Barriers

Section V. Key FAS/USDA Contacts and Further Information

Section I. Market Summary

A. Executive Summary

Changes in lifestyle and dietary culture coupled with increased consumer income level stimulated rapid growth in the food service sector in Korea ^[1]. Monthly per capita spending on eating outside of the home has more than doubled in the last ten years, reaching ₩ 80,780 ^[2] in 2008. In other words, each Korean spent 46 percent of his/her food expenditure, or 12 percent of total consumption expenditure on dining out. It is expected that dining out will remain a key part of consumer spending in the coming years as Koreans face ever busier lifestyle with increased number of single-member households and dual-income families.

Figure 1: Monthly Per Capita Household Spending on Dining-Out ^[3]

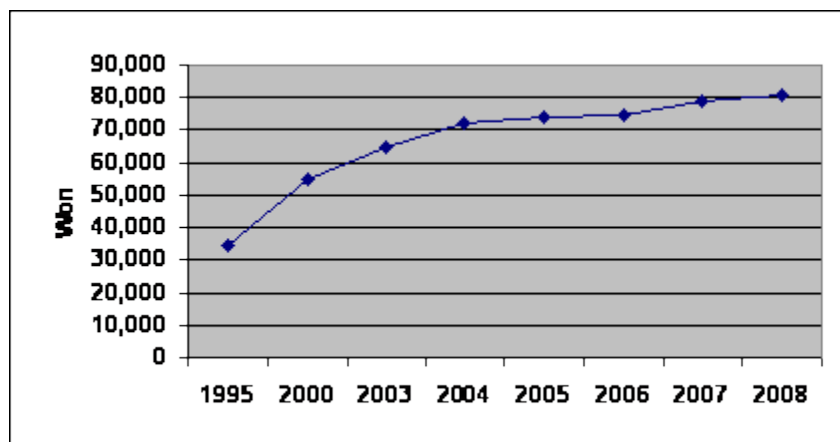


Figure 2: Share of Dining-out in Household Spending

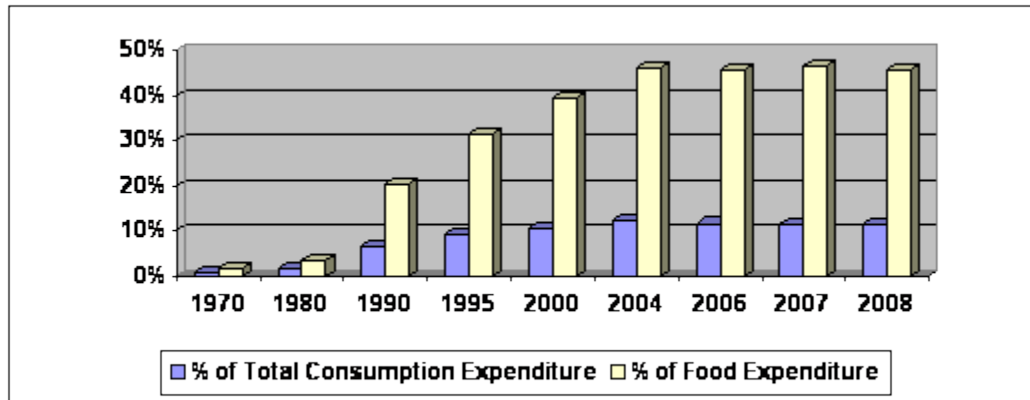
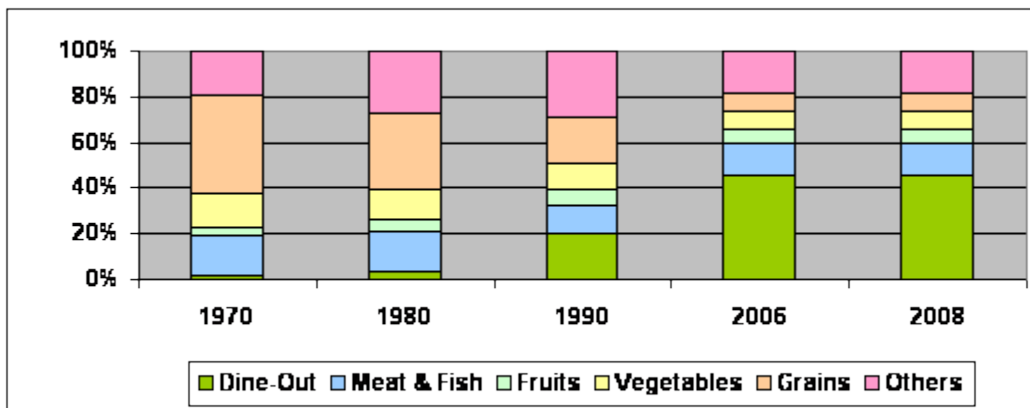


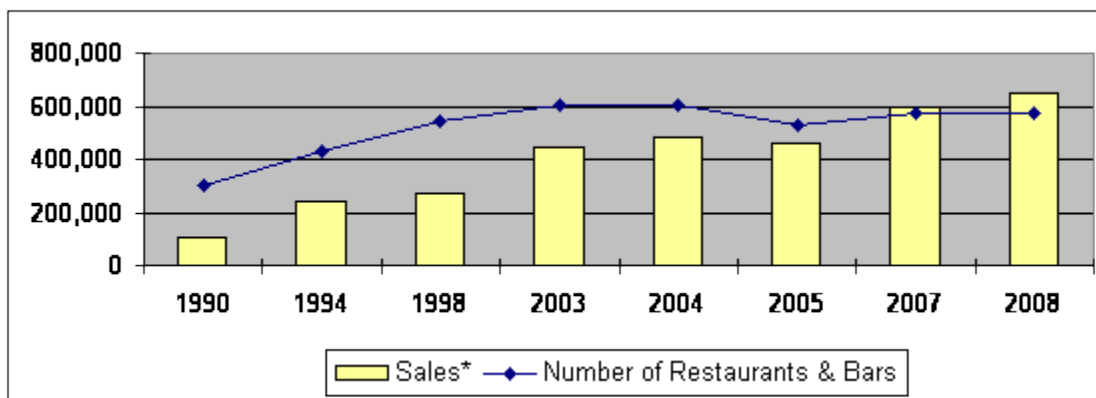
Figure 3: Breakdown of Household Food Expenditure by Item



According to the most recent Korean government statistics available, the food service sector earned ₩64.7 trillion of cash register sales in 2008, up 9 percent from the previous year. The restaurant business was restricted by law to individuals and small businesses up until mid 1990's. In addition, the restaurant sector was a major refugee to many of those people who lost corporate jobs during and aftermath of the Asian economic crisis in late 1990's. As a result, the sector has been largely composed of small-scale, family-operated businesses, as evidenced by the fact that 90 percent of restaurants and bars in Korea were small businesses that hired less than five employees as of 2008. In addition, 41 percent of restaurants and bars made less than ₩50 million of annual cash-register sales. However, market analysts point out that the sector has finally reached a saturation point in terms of the total number of restaurants and bars ^[4], as indicated by the stagnant growth of the

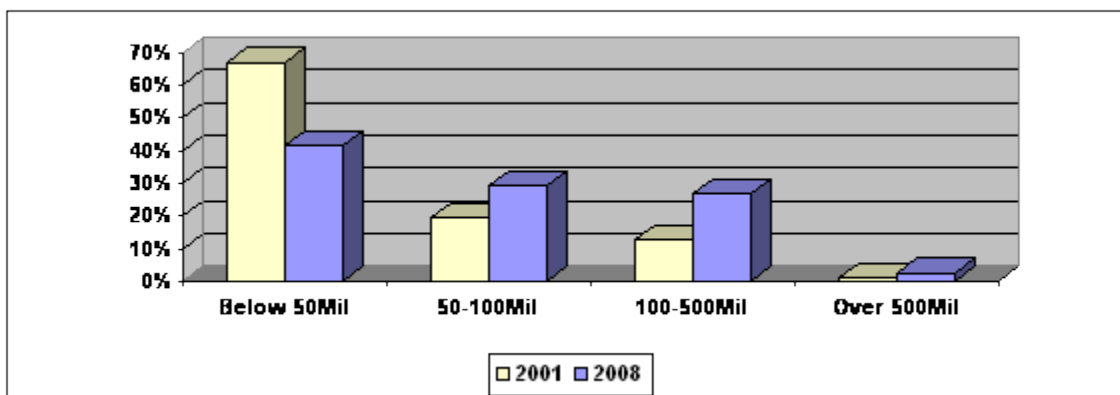
number since 2003.

Figure 4: Total Number and Annual Sales of Restaurants & Bars



* Unit: ₩100 million

Figure 5: Breakdown of Restaurants & Bars by Annual Sales



* Unit: ₩

Restructuring of the sector, mainly fueled by increased competition from government deregulation that allowed large conglomerates into the food service business, has led to a rapid growth of large-scale restaurants under franchise management at the expense of small-scale, family-operated establishments. Retail sector, armed with HMR (Home Meal Replacement) products, has also emerged as another competitor to restaurants. The total number of restaurants and bars in the sector is likely to be on a gradual decline in the coming years.

Evolving tastes of Korean consumers have also brought significant changes to the sector in terms of recipes, products and services offered. Consumers are seeking more new and international tastes while becoming more concerned about the quality, safety and “well-being” aspect of foods that they eat in restaurants. It is not surprising to observe that most of the newly open restaurants take fully

different approach to recipes and store design from existing ones next door. Diversification and differentiation have emerged as key words in the sector due to elevated competition.

Streamlining of the product supply chain is another area in which the sector has made significant progress in recent years. Although traditional multi-layered supply chain comprised of wet-markets and small-scale wholesalers still remains as a dominant channel for small scale restaurants and bars, large scale ‘one-stop, broad-line’ service distributors are growing rapidly along with the growth of large scale restaurants under franchise operation.

The evolvement of the food service sector is creating growing demand for imported products that offer new and healthy recipes, stable price and volume capacity, catered specifications and added-value, characteristics where U.S. products are competitive. The outlook for U.S. exports to the Korean food service sector is excellent for beef, pork, chicken meat, ham and sausage, processed turkey meat, seafood, processed vegetables, fresh and processed fruits, tree nuts, cheese and processed dairy products, fruit juices and other non-alcohol beverages, wine, sauces and condiments, processed organic foods, coffee, bakery ingredients and frozen prepared products. In addition, on-going trade liberalization, including the Korea-United States Free Trade Agreement currently pending in the national assembly in both countries for final ratification, will create new export opportunities for those products that are currently under restrictive import barriers in the form of import tariffs, volume quotas and phytosanitary regulations.

B. Advantages and Challenges for U.S. Exports

Advantages	Challenges
Korea is an emerging market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products. Consumers are looking for new and international tastes as the income level continues to rise.	Consumers are generally biased toward locally produced products. Many consumers still maintain a negative view on the quality and safety of imported foods. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, food safety issues are increasingly becoming means to restrict imports.
Korea, by nature, depends heavily on imports for its food and agricultural needs. Many imported products are free from competition from locally grown products. On-going liberalization of import barriers improves market access and price competitiveness of imported American products.	Imports of many products still face restrictive trade barriers, including high tariffs, volume quotas, and food safety safety/labeling standards. Certain food additives approved for use in the United States may not be approved in Korea.
A series of public food safety scandals	American products face steeper competition

associated with imported products from China in recent years has led consumers and traders to be more concerned about the quality of product that they buy. Traders are likely to switch procurement sources to developed countries, including the United States, in an effort to regain consumer confidence.	against cheaper products from export-oriented competitors such as China and EU. Although changing, price is still the most important factor governing procurement decisions. Few local decision makers understand the overall benefit of using higher quality, value-added products.
Modern, large-scale businesses are leading the growth of the food service sector which offers new opportunities to imported products.	Many American suppliers have little understanding about different needs and tastes of the Korean market and thus do not offer catered products and services.
Due to the long history of economic and political ties between Korea and the United States, Korean consumers are familiar with American products and food trends. Consumers maintain a positive view on the quality and value that American products offer. English is the most popular foreign language for Koreans.	Although relying heavily on imported ingredients, Korea has well developed food processing industry which produces products that compete against imported products. Local food processing industry is paying more attention to producing food service sector oriented products.

Section II. Road Map for Market Entry

A. Entry Strategy

A-1. Understanding Local Tastes

Dishes served in Korea largely reflect the contemporary dietary culture of Koreans. Even most of the international themed recipes that are gaining popularity among young consumers are outcomes of modifications based on local tastes. As a result, products that are used in similar dishes in the United States may require some degree of modification to be marketable in Korea. Needed modification could mean anything from changing packaging design to reducing portion size to adding or deleting some ingredients. A personal visit to Korea will be an excellent way to understand the local tastes and trends. As an alternative, the Internet can be a very effective tool to stay informed. It might be helpful to remember a long-held rule of thumb; new food trends in Japan show up in Korea a couple of years later, although the time gap seems to be narrowing. In addition, local opinion leaders are now tracking more diverse culinary destinations around the world, including New York, Paris and Shanghai, for new ideas and references.

A-2. Consumption Trends

Like consumers everywhere, Korean consumers are also looking for better value, convenience, new

tastes, and safer and fresher products in their diet. Due in part to a rapid expansion of the silver generation, there is a heavy emphasis among the general public on healthy eating. Organic food and wine, among many others, are gaining popularity among health-conscious aging consumers and young mothers. 'Well-being' is a core theme behind on-going consumer trend of seeking healthier and more 'wholesome' options. Korean's long-held belief in health-improving functionality of regular diet (as an old Korean proverb says "food and medicine are from the same source") still prevails. As a result, recipes and products that incorporate healthy, functional themes and ingredients are widespread in the market. 'Kid & Education' theme is another important driving force often found behind consumption trends as the Korean society has traditionally put a high emphasis on education.

Table 1: Aging Korean Population ^[5]

Age Group	1995		2000		2005		Growth (95/05)
	Number	Share	Number	Share	Number	Share	
0-14	10,236	23.0 %	9,639	21.0 %	8,986	19.1 %	-6.8 %
15-64	31,678	71.1 %	32,973	71.7 %	33,690	71.6 %	2.2 %
65 +	2,640	5.9 %	3,372	7.3 %	4,365	9.3 %	29.5 %

Korean GDP ^[6] was recorded at \$929 billion in 2008 which made Korea the world's 15th largest economy. Koreans were one of the most affluent consumers in Asia after Japan, Macao, Singapore and Hong Kong, with \$21,350 per capita GNI ^[7] in 2008. It is expected that Korean consumers will become more diversified in their tastes and buying power along with national economic growth. Accordingly, the food service sector will continue to evolve to provide more diversified options. For example, while the strong demand for value oriented products by the middle to low income consumer group has driven a rapid expansion of quick-service Korean restaurant segment, sales of premium restaurants have also shown a strong growth even under the economic slow down in recent years. For affluent consumer groups and young professionals, quality and luxury image can be more important factors than price and value.

Korea's 50 million inhabitants occupy a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain and over 80 percent of Korean population lives in metropolitan areas, which explains high population density and real estate cost. Convenience remains a very important factor behind many consumer trends in Korea as everyday life gets busier. For example, increase of dual-income families and single member households has led to a growing demand for HMR (Home Meal Replacement) products in retail stores. Delivery service by both grocery stores and quick service restaurants is extremely well developed as people do not want to waste time on the traffic-jammed road. Rapid growth of on-line shopping is also rooted partly in the demand for

convenience.

A-3. Establishing Korean Partners

Because of many variables involved, there is no single best way for a successful entry into the Korean market. Success is unlikely, however, without catered support of local partners. Korea has well established regulations and procedures on food imports, as well as complex tariff and tax codes, which often make the entry of new-to-market product a time and resource consuming process. Working with reputable importers is the approach that has been proven most efficient to overcome these challenges. Established importers are well aware of market demand/supply intelligence, local business laws and practices, supply chain, and most of all are the best information source for up-to-date government regulations on imported foods.

The type of business relationship agreed between the U.S. exporter and the Korean importer may vary from joint investment partnership to exclusive agent to non-binding broker contract depending on how the exporter sees the role of the Korean partner in the process of market development. The most common practice is starting with a group of sub-sector-designated importers on non-binding broker contracts during the initial stage of market entry. Working with one large-scale broad-line importer could be an effective alternative to quickly gain access to various sub-sectors in the market.

There are many items that the U.S. exporter should follow up promptly with the importer during the initial stage of market entry. The Korean government maintains very strict regulations on food imports and requires various certificates/documents and product information before approving import of a new-to-market food product. Therefore, the exporter must provide the importer with necessary documents and information to submit to the government authorities. More detailed up-to-date information on the Korean food safety and labeling regulations can be found in the FAS report #KS9039, (FAIRS Country Report, Seoul, August 12, 2009, www.fas.usda.gov).

The Agricultural Trade Office (ATO) in Seoul maintains listings of established Korean importers by product which are available at no cost to U.S. exporters. ATO Seoul also feeds trade lead (purchase intention) inquiries collected from Korean importers to State Regional Trade Groups (SRTGs), which are disseminated to U.S. exporters through the network of the state department of agriculture and trade promotion agencies. ATO Seoul regularly organizes Korean buyer missions in cooperation with SRTGs and USDA cooperators to major food trade shows in the United States, such as the FMI Show/US Food Showcase^[8] and the NRA Show/American Food Fair^[9], for matchmaking with U.S. exporters.

U.S. export brokers or middlemen may get involved in the entry of a new-to-market product into Korea especially when the original U.S. supplier (manufacturer or producer) is not interested in direct export business or when the volume of business is small. Although Korean importers in general prefer to work directly with the original supplier, using experienced brokers or middlemen can be an efficient way to find the right trading partner in Korea.

Exhibiting in food trade shows in Korea can be a cost-effective way to meet with a large number of key Korean importers/traders in one place. Currently, the Seoul Food & Hotel (SFH) ^[10] is the only show in Korea endorsed and supported by the U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting in any Korean trade show may contact ATO Seoul for guidance and information because most local shows are consumer-oriented and are not particularly efficient for promoting new-to-market products.

New-to-market U.S. exporters should pay attention to protecting the company/product trademark and patents, which can be easily handled by working with the Korean partner or through local attorneys. For more information, see the Korea Industrial Property Rights Information Service website (<http://eng.kipris.or.kr>).

A-4. American-Origin Restaurant Franchises

Many of the leading restaurant chains in Korea are of U.S. origin and can be approached through the headquarters in the United States. The degree of involvement of the U.S. headquarters in the operation of the partner chain in Korea varies from one company to another depending on the nature of the contract between them. U.S. headquarters in general have a significant amount of influence over what products and recipes the Korean partners serve. Below is a list of U.S. origin restaurants currently in operation in Korea.

Table 2: A List of U.S. Origin Restaurants in Korea

Type	Chains
Fast Food Restaurants	McDonald's, KFC, Burger King, Subway, Popeye's
Family Restaurants	TGIF, Bennigans, Outback Steakhouse, Sizzler, Chili's, Toni Roma's, Ruby Tuesday, Hard Rock Cafe, Hooters, On The Border
Ice Cream Restaurants	Ben & Jerry's, Haagen-Dazs, Cold Stone Creamery, Baskin Robbins
Pizza Restaurants	Pizza Hut, Domino Pizza, Papa John's
Coffee & Deli Shops	Starbuck's, Seattle's Best, Au Bon Pain, Krispy Kreme Doughnuts, Cinnabon, Dunkin Doughnuts, Smoothie King

A-5. Sell Recipe Ideas First, Not Products

One of the biggest challenges for new-to-market products to establish a market in Korea is educating local distributors and chefs of the possible uses and applications of the products. Recipes are the most efficient carrier to deliver the marketing messages of the suppliers to the Korean customers. Recipe seminars and cooking demonstrations are some of the most commonly used tools to achieve the strategy of “*sell recipe ideas first, not products*”.

B. Market Structure - Distribution Channel

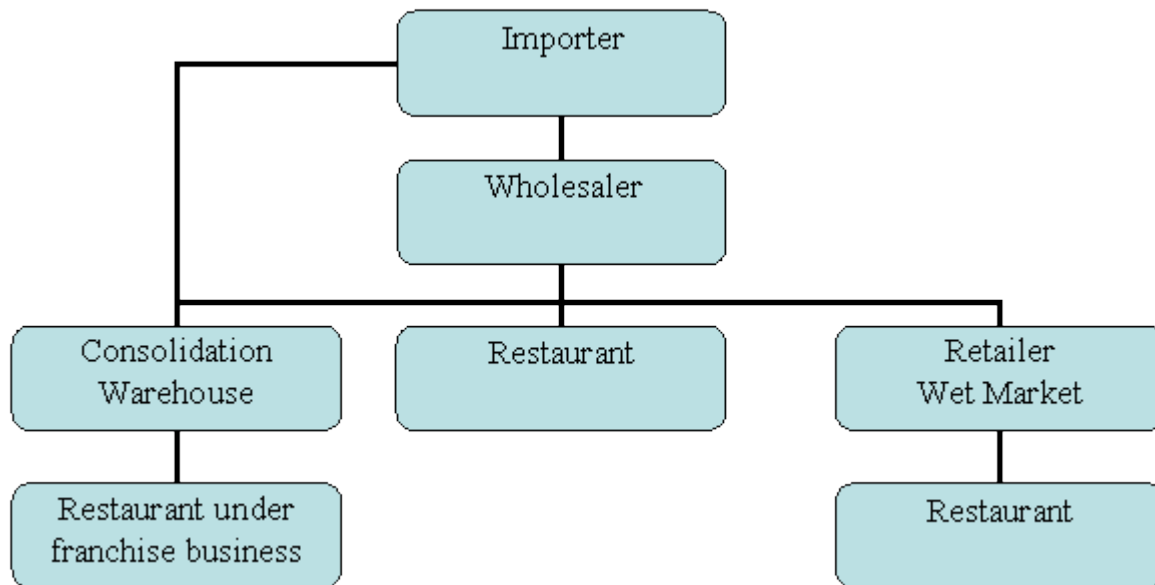
B-1. Logistics

It takes at least two weeks for a container ship from a western U.S. port, and three weeks from an eastern port, to arrive in a port in Korea. In general, most imported consumer ready products enter Korea through the port of Busan, the second largest city located at the southeastern tip of the Korean peninsula. In rare occasions, small-volume-high-value products, such as premium wine and chilled beef, are brought via air cargos through Incheon International Airport (ICN), one hour drive away from downtown Seoul.

The amount of time that the product sits in the port of entry for customs clearance process, including food safety inspections, varies from one day to a few weeks largely depending on the kind of inspection the product is subject to. The detailed laboratory inspection required on all new-to-market products and randomly selected existing ^[11] products may take as long as ten working days. The documentary inspection allowed on products that have previously been imported may be completed within a couple of days.

Once the products are cleared through the Customs office, they are transported to the importer's warehouse for storage. Importers may have warehouses in more than one location. After the importer's warehouse, products may go through a multiple layers of wholesalers and retailers before reaching end-user restaurants (traditional channel used by most independent small-scale restaurants) or through one consolidation warehouse which distributes directly to restaurants under large-scale franchise business. Many importers and wholesalers rely on third party logistics services for warehousing and trucking because of the high overhead cost.

Figure 6. Flow of Imported Products in Food Service Sector



B-2. Traditional Distributors

Most of independent small-scale restaurants still procure products from traditional distribution channel, which includes multiple layers of wholesalers, wet-markets and retailers. Wholesalers and wet-markets in general are specialized in certain product categories (meat, fish, or fresh produce, for example) and are considered to offer freshest products at good value for small volume purchases. However, sales of these traditional channels are on a gradual decline just like their customers as they face tougher competition against large-scale distributors who offer more efficient consolidation and delivery service at cheaper price. Tightened government tax regulation has also deteriorated price competitiveness of traditional distributors who in the past were given wide latitude in tax reporting.

B-3. Broad-line Distributors

The rapid growth of large-scale restaurant business is prompting an equally rapid growth of large-scale foodservice distributors who offer efficient one-stop shopping convenience over a broad range of both food and non-food products. Currently, there are about five leading broad-line distributors, all committed to be “Sysco of Korea” someday and expanding business nationwide armed with modern distribution network of temperature-controlled warehouses and truck fleets. However, business of these broad-line suppliers is currently limited to large-scale restaurants partly due to underdeveloped sales force. Furthermore, broad-line distributors are focusing on high-volume products for economy of scale and have not yet achieved true ‘one-stop shopping’ capability. Consequently, restaurants that use broad-line distributors may procure additionally from a multiple number of specialty product suppliers for low-volume products.

Below is a brief description of general procurement practices of broad-line distributors:

- Fresh agricultural products for long-term storage, such as onions, dried red pepper, carrots and potatoes are procured from local contract farms and/or from the National Federation of Agricultural Cooperatives (NACF).
- Perishable fresh vegetables are procured from local contract farms, usually large-scale green houses developed in the vicinity of metropolitan cities that supply fresh products year around.
- Fresh vegetables subject to seasonal supply fluctuations, such as Chinese cabbage and radish, are procured through middlemen/wholesaler in the wholesale auction market.
- Local meat is procured through local middlemen/wholesaler in the wholesale meat auction market.
- Locally processed vegetables (frozen, canned and pickled) are procured from domestic manufacturers every one to three months through price bidding.
- Locally processed foods (such as cooking oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are procured from importers or, to a lesser extent, directly from overseas suppliers. Broad-line distributors prefer direct imports for high-volume products, such as meat, seafood and canned vegetables, while preferring to use middlemen importers for low-volume or products of seasonal demand. Imports and distribution of products under import quota restrictions, including fresh potatoes, onions, grains and honey, are in general regulated by the Korea Agro-Fisheries Trade Corporation (aT), a government agency under the Ministry of Agriculture, Forestry, Fishery and Food (MAFF). In general, the set annual import quota is distributed evenly to the importers who signed up for the product. In other cases, the quota is allocated on a first come, first served basis or through price bidding. A broad-line distributor may acquire an import quota allocation or purchase from other importers who have an allocation.

Many broad-line distributors operate processing facilities attached to their warehouses for preliminary processing of vegetables and meat, such as washing, cutting, repackaging and limited cooking. Some of the leading companies also operate food manufacturing facilities or have partnerships with manufacturers to offer private branded processed products, such as soups, sauces and packaged marinated meat. Broad-line distributors currently put a heavy emphasis in developing prepared or packaged products under their own brands as a way of increasing customer royalty and profit.

Table 3: A List of Broad-line Food Service Distributors (2007) ^[12]

Company Name	Annual Sales from Product Distribution	Web-site
CJ Freshway Co.	₩360 billion	www.cjfreshway.co.kr
Our Home Co. Ltd.	₩200 billion	www.ourhome.co.kr
Samsung Everland Co., Ltd.	₩140 billion	www.samsungeverland.com
Foodmerce Co.	₩260 billion	www.foodmerce.com
Korea Tourist Supply Center Co., Ltd.	₩160 billion	www.ktsc.co.kr

B-4. Food Processors

Local food processing industry is a major supplier of processed products to the food service sector. Although food processors in general maintain bigger emphasis on retail products, more companies are shifting attention to offer food service sector oriented products. More serious processors have recently developed strategic alliance with broad-line distributors to market food service products under the distributor's brand name. While a large portion of these co-packed products are simply the same retail products repackaged in bigger food service containers, some are developed exclusively for the food service market. CJ, Daesang, Ottoogi and Dongwon F&B are the leading players in this area. Although products by local processors are largely limited to items of large volume demand, it is expected that processors will expand into more diverse products, many of which will compete directly with imported products in the food service sector. Local processors, however, depend heavily on imported ingredients. Products from local processors are generally distributed through multiple layers of wholesalers or retail stores before reaching restaurants unless they are bound directly for broad-line distributors.

B-5. Discount Retail Stores

Discount retailers, including hypermarkets and membership warehouse clubs, have emerged as an important supply channel for the food service sector as many small-scale, family-operated restaurants procure products there for convenience. Currently, there are about 350 large-scale discount stores nationwide with about a dozen new stores added every year. Although Shinseage E-Mart (127 outlets as of February 2010) and Samsung Tesco (112 outlets) are the leading players in the segment, Costco Wholesale (6 outlets), an American membership warehouse club chain, remains the most active player in targeting restaurant customers.

C. Sub-Sector Profiles

C-1. Hotel Segment

There were 553 hotels in Korea at the end of 2008, 200 less than ten years before. This significant

drop was mainly caused by closings of small-scale hotels with less than 50 guestrooms. However, the growth of large-scale hotels over the years has more than compensated for the loss, resulting in outstanding growth of cash register sales of the segment to ₩4.1 trillion in 2008, up 99 percent from 1999. Although the hotel segment accounted for only 1.2 percent of the lodging industry in terms of the number of companies, the segment comprised about 47 percent of total lodging industry sales in 2008.

Table 4: Lodging Industry Market Share^[13]

	Number of Business		Number of Rooms		Cash Register Sales	
	2001	2008	2001	2008	2001	2008
Hotels	618	553	59,015	59,014	4,450,677	4,122,928
Inns	26,939	27,054	453,420	553,687	1,511,921	2,322,210
Resort Condos	103	224	25,125	30,024	399,252	1,141,294
Others	6,657	19,094	46,744	218,310	183,263	1,073,126
Total	34,317	46,925	584,304	861,035	6,545,113	8,659,558

Table 5: Hotel Segment Statistics Broken Down by Number of Rooms

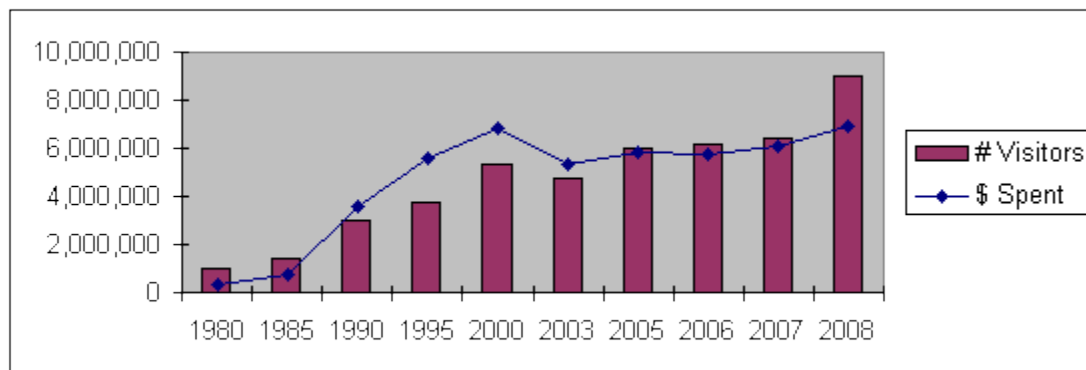
Number of Rooms		<50	50-99	100-300	>300	Total
Number of hotels	2008	152	230	123	48	553
	1999	332	276	118	25	751
	Change	-54.2%	-16.7%	4.2%	92.0%	-26.4%
Number of rooms	2008	5,746	16,059	18,348	18,596	58,749
	1999	12,484	17,745	18,020	10,637	58,886
	Change	-54.0%	-9.5%	1.8%	74.8%	-0.2%
Number of employees	2008	2,221	5,552	10,846	17,689	36,308
	1999	4,431	9,659	14,317	10,591	38,998
	Change	-49.9%	-42.5%	-24.2%	67.0%	-6.9%
Cash register sales	2008	142,040	377,608	924,627	2,678,653	4,122,928
	1999	155,076	373,573	716,976	831,143	2,076,768
	Change	-8.4%	1.1%	29.0%	222.2%	98.5%
Room sales	2008	68,480	194,000	418,437	908,672	1,589,589
	1999	56,855	159,171	253,220	196,538	665,784
	Change	20.4%	21.9%	65.2%	362.3%	138.8%
F&B sales	2008	30,552	133,049	308,983	1,127,118	1,599,693
	2005	46,540	124,864	329,902	1,165,678	1,666,984
	Change	-34.4%	6.6%	-6.3%	-3.3%	-4.0%

Competition has precipitated restructuring of the segment over the years, favoring large-scale hotels under franchise operation at the expense of independent small-scale hotels. In particular, five-star hotels with over 300 guest rooms have shown the most remarkable growth. Many four-star hotels

have joined professional management franchises, such as Hyatt, Ramada and Marriott, to remain competitive in operation efficiency. Many middle-sized hotels have gone under the umbrella of budget-format franchises, such as Best Western, Day's Inn, Ramada Inn and Holiday Inn, to target the niche market of low-budget tourists and business travelers. The rapid growth of unconventional lodging formats, such as serviced residences, pensions, by-the-hour motels and 24 hour hot-spa houses, has also resulted in closings of many small-scale hotels and inns.

The hotel segment is expected to maintain a healthy growth in the coming years both from domestic and international travelers. In particular, the five-work-day system, which became national standard for most Korean workers in mid 2005, has significantly boosted domestic tourism. According to the government statistics, the total number of local travelers increased from 320 million in 2001 to 650 million in 2008. A steady growth in the number of foreign travelers to Korea is also anticipated to continue in the coming years.

Figure 7: Foreign Travelers Visiting Korea ^[14]



A good number of new hotels are currently under construction or on the drawing board in order to meet the increased demand for additional hotel rooms. According to a government study, the market will need an additional 16,000 guestrooms between 2005 and 2010 in the Seoul metropolitan area alone. The shortage of hotel rooms is expected to be worse in regional markets where new industrial or tourist districts are under development. Recognizing the emerging opportunities, local conglomerates have unveiled plans for new hotels throughout the nation. A 106 story high hotel currently under construction by Lotte Hotel Group in Busan, which upon completion will be one of the tallest hotel buildings in the world, is an example of active investments being made in the sector.

The hotel segment, especially five and four star hotels with in-house premium restaurants, has played a leading role in introducing new-to-market food products and recipes to local opinion

leaders. It also has served as an efficient venue for promotional activities of the food service industry, including menu promotions, product launchings and technical seminars. Currently, food and beverage sales are estimated to comprise 40 to 50 percent of total sales revenue of five and four star hotels. Some leading hotels, the Shilla and the Westin Chosun for example, have expanded their food service businesses outside of their hotels and now operate stand-alone restaurants of various formats, including microbrew pubs, food courts, coffee shops, bakery shops and premium gourmet restaurants. Although the share of the market taken by the hotel segment in the food service sector is on a gradual decline due to the growth of restaurants outside of hotels, it is likely that the segment will remain a leading distribution channel of premium, high-quality imported food and beverage products.

C-2. Restaurant Segment

Table 6: A Brief History of the Restaurant Industry in Korea ^[15]

Year	GNI	Major Events
1900 - 1950's	N/A	<ul style="list-style-type: none"> • Birth of the modern commercial restaurant industry. • A total of 166 restaurants in business in Korea as of 1945.
1960's	\$100 - \$210	<ul style="list-style-type: none"> • Most consumers had very low income and limited food supply. • Western foods, mainly wheat flour and dried milk, first introduced to the general public through the food aid programs by the United Nations and the United States.
1970's	\$248 - \$1,644	<ul style="list-style-type: none"> • A large number of small mom-and-pop restaurants opened in metropolitan cities for the first time. • Rapid improvement in the diet of the general public due to economic development. • Opening of the first franchise restaurant chain, Nandarang (1979) and the first fast food restaurant chain, Lotteria (1979). • Imported foods became available commercially for the first time to hotels with the establishment of the Korea Tourist Supply Center (KTSC), a monopoly import distribution body (1978)
1980 - 1985	\$1,592 - \$2,158	<ul style="list-style-type: none"> • A limited variety of Western menus penetrated to the general public. • Rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken and draft beer pubs) in metropolitan cities. • The first wave of international restaurant chains into the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza Hut (1984), Baskin Robbin's (1985)
1986 - 1990	\$2,194 - \$4,197	<ul style="list-style-type: none"> • The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international recipes to the market. • Rapid development of restaurants and bars under western themes. • Introduction of commercial institutional food service (contract feeding) business: Seoul Catering (1989), Our Home/LG Mart (1989). • The second wave of international restaurants into the market:

		McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery (1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	<ul style="list-style-type: none"> • Large conglomerate companies were allowed to enter the restaurant business, which led development of large scale restaurant and distribution businesses. • Diversification of food service industry with new formats and menus. • Hardies (1990), TGIF (1991), Haagen-Dazs (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak (1997), Chili's (1997).
2000's	\$10,000- \$20,000	<ul style="list-style-type: none"> • Restaurants under chain or franchise management lead the growth of the sector at the expense of small scale, independent restaurants. • Rapid growth of broad-line food service distribution business. • The industry continues to evolve with new formats and menus, including take-out, espresso cafe, food court, fusion cuisine, ethnic cuisine, rebirth of traditional themes and wine bar.

Development of the modern food service industry in Korea is an outcome of on-going market liberalization. Imports and distribution of imported products to the food service sector were under government controlled monopoly system up until early 1990's. The 1986 Asian Games and the 1988 Olympic Games, both held in Seoul, provided the industry with an important growth momentum, which led to implementation of a series of market liberalization policies in early 1990's, including abolishment of the market entry barrier that previously prohibited large scale companies from doing food service (restaurant) business.

Below is a summary of major issues and resulting trends that are taking place in the restaurant segment:

- Reducing operation costs: switching to part-time employees, adopting central kitchen facilities and prepared products, standardization of recipes and product specifications, adopting information technology solutions such as ERP (Enterprise Resource Planning) and RFID (Radio Frequency Identification Tag).
- Achieving more efficient procurement by switching to broad-line suppliers and further processed products. Mergers and acquisitions of companies, both in the area of restaurant operation and product distribution, are actively pursued for economy of scale.
- Diversification of menus incorporating foreign ethnic themes and ingredients.
- Diversification of restaurant concepts and designs reflecting changes in the consumption and cultural trends. Natural, organic, fresh, fusion, Zen, seafood, fun, ethnic and neighborhood are some of the key themes popular in the market.
- Capitalizing on the consumer trend of healthy-eating. Restaurants are making greater

emphasis on incorporating more functional and organic ingredients, HACCP certification and promotional activities under health themes. Sales of local restaurants have fluctuated significantly in recent years due to a series of nation-wide food safety issues, including BSE, AI (avian influenza), Trans-fat and GMO (genetically modified organism).

- Deploying more efficient sales promotion programs. In particular, there has been greater emphasis on cross-promotional partnerships with non-food businesses such as information technology firms, movie theaters and credit card companies. Sales promotions are heavily tied with holidays and special occasions, including New Year Day, Lunar New Year Day, Valentine Day (Feb. 14), White Day (March 14), Kids Day (May 5), Parents Day (May 8), Teachers Day (May 15), Korean Thanksgiving Day (around September) and Christmas.

Table 7: Break Down of Restaurant Segment by Type of Restaurant ^[16]

Type of Restaurant	Year	# of Restaurants	Annual Sales
Full Svc Korean Restaurants	2008	279,702	31,538,783
	2005	254,784	21,639,214
	Change	9.8%	45.7%
Full Svc Chinese Restaurants	2008	21,771	2,688,885
	2005	21,932	1,914,501
	Change	-0.7%	40.4%
Full Svc Japanese Restaurants	2008	6,022	1,948,601
	2005	4,628	1,047,728
	Change	30.1%	86.0%
Full Svc Western Restaurants	2008	9,582	2,710,682
	2005	10,684	2,286,469
	Change	-10.3%	18.6%
Institutional Feeding Restaurants	2008	4,309	2,741,379
	2005	3,238	2,123,207
	Change	33.1%	29.1%
Catering Service	2008	473	135,064
Quick Svc Western Restaurants	2008	36,705	4,012,880
	2005	30,585	3,135,912
	Change	20.0%	28.0%
Quick Svc Korean Restaurants	2008	45,701	2,802,432
	2005	52,553	2,707,571
	Change	-13.0%	3.5%
Other Quick Svc Restaurants	2008	3,930	952,299
	2005	4,653	956,708
	Change	-15.5%	-0.5%
Bars & Salons	2008	130,003	10,847,234
	2005	116,864	8,112,523

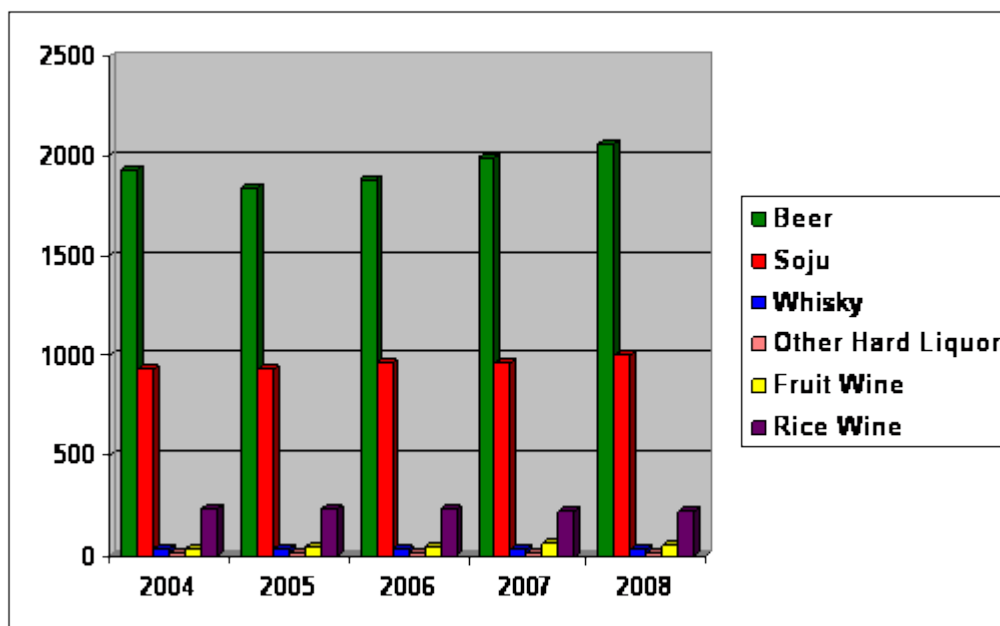
	Change	11.2%	33.7%
Bakery Shop	2008	12,513	2,410,890
	2005	6,408	932,349
	Change	95.3%	158.6%
Tea & Coffee Shop	2008	26,279	1,922,794
	2005	25,600	1,396,341
	Change	2.7%	37.7%
Total	2008	576,990	64,711,924
	2005	531,929	46,252,523
	Change	8.5%	39.9%

Although facing elevated competition, Korean food restaurants still accounted for a dominant share of the restaurant segment both in terms of the number of restaurant and sales in 2008.

“Internationalization of Korean Cuisine”, a culture marketing campaign launched in 2009 by the Korean government with avid participation of local food industry and consumer groups, has helped the local cuisine restaurants regain attention of the general public. However, menus and products served in Korean food restaurants are increasingly incorporating new-to-market ideas and themes of international cuisines, offering greater opportunities to imported products. In a similar vein, many of the international dishes served in Korea are somewhat ‘Koreanized’ in terms of the taste, ingredients and style. In general, tastes of Korean consumers have high affinity to hot spices, vegetables, seafood and fermented/pickled foods. There is a general consensus among the local consumers that menus served in the western world, including the U.S., are too salty, sweet, and fatty.

It is notable that Korea is one of the biggest markets for alcoholic beverage in the world and has an exceptionally high number of bars and other types of drinking places for the population. Drinking is considered an important part of everyday life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is getting more new drinkers from the younger generation and the female population. Beer and soju^[17] are by far the most consumed alcoholic beverages while fruit wine and traditional rice wine are on a rapid growth. Over half of the alcohol beverages sold in Korea is reportedly consumed in the food service sector. In particular, food service sector is the leading consumer of premium, high value products such as Scotch whiskies and cult wines.

Figure 8: Sales of Alcoholic Beverages in Korea (Volume)



Source: Korea National Tax Office (Unit: 100,000 liters)

Growth of western themed restaurants, in particular hamburger chains and steak restaurants, has slowed down over the last several years largely due to the consumers' elevated health concerns. In particular, BSE and avian influenza scandals deteriorated consumer confidence in beef and chicken meat, the key ingredients for western themed restaurants. In an effort to rebuild consumer traffic, companies are deploying aggressive price promotions, new, healthier menus and convenience services such as drive-thru and 24 hour operation.

Table 8: Profile of Major Quick Service Western Restaurant Franchises ^[18]

Company	Brand	Year	Annual Sales	# of Outlets
Lotteria	Lotteria	2005	₩ 380 billion	800
		2008	₩ 440 billion	750
McDonald's Korea	McDonald's	2005	N/A	305
		2008	₩ 197 billion	235
SRS Korea	KFC	2005	₩ 160 billion	179
		2008	₩ 147 billion	140
	Burger King	2005	₩ 70 billion	95
		2008	₩ 92 billion	94
TS Haemaro	Popeye's	2005	₩ 65 billion	150
		2008	₩ 41 billion	113

Table 9: Profile of Major Western Family Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Ojijung	Outback Steak	2005	₩ 220 billion	70

	House	2008	₩ 275 billion	101
CJ Foodville	VIPS	2005	₩ 130 billion	41
		2008	₩ 250 billion	80
Foodstar	T.G.I. Friday's	2005	₩ 110 billion	39
		2008	₩ 80 billion	30
Rise On	Bennigan's	2005	₩ 99 billion	26
		2008	₩ 94 billion	30
Amoje	Marché	2005	₩ 20 billion	7
		2008	₩ 52 billion	5
Sun@Food	Tony Roma's	2005	₩ 15 billion	7
		2008	₩ 10 billion	5

Table 10: Profile of Major Pizza Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Pizza Hut Korea	Pizza Hut	2005	₩ 400 billion	340
		2008	₩ 430 billion	330
Mister Pizza Korea	Mister Pizza	2005	₩ 180 billion	250
		2008	₩ 390 billion	350
DPK	Domino's Pizza	2005	₩ 200 billion	280
		2008	₩ 300 billion	305
Ettang	Pizza Ettang	2005	₩ 80 billion	268
		2007	₩ 150 billion	350
PJI Korea	Papa Jones	2005	₩ 12 billion	39
		2006	₩ 35 billion	70
Ggoom & Sarang	Redcap Pizza	2005	₩ 9 billion	22
		2007	₩ 20 billion	30

Table 11: Profile of Major Espresso Cafe Franchises

Brand / Company	Year	Annual Sales	# of Outlets
Starbucks / Starbucks Korea	2005	₩ 92 billion	144
	2008	₩ 171 billion	282
Coffee Bean / Coffee Bean Korea	2005	₩ 46 billion	43
	2008	₩ 92 billion	150
Angelinus / Lotteria	2005	₩ 13 billion	28
	2008	₩ 65 billion	144
Tom & Toms / Tom & Toms	2007	₩ 18 billion	71
	2008	₩ 36 billion	111
Hollys / Hollys F&B	2005	₩ 17 billion	56
	2008	₩ 23 billion	179
Pascucci / Paris Croissant	2006	₩ 25 billion	29
	2008	N/A	44

Table 12: Profile of Major Quick Service Fried Chicken Restaurant Franchises

Brand / Company	Year	Annual Sales	# of Outlets
BBQ / Genesis	2005	₩ 336 billion	1,750
	2008	₩ 182 billion	1,800
Gyochon Chicken / Gyochon F&B	2005	₩ 86 billion	1,055
	2008	₩ 97 billion	1,035
Ne Ne Chicken / Hyein Food	2007	₩ 70 billion	700
	2008	₩ 80 billion	830
Ttoraeorae / NACF Mokwoochon	2005	₩ 27 billion	500
	2008	₩ 60 billion	1,000
Goobne Chicken / Masineun Saengak	2007	₩ 16 billion	295
	2008	₩ 37 billion	514
Mexicana Chicken / Mexicana	2005	₩ 61 billion	910
	2008	₩ 35 billion	800

Table 13: Profile of Major Full Svc Korean Food Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
Nolboo NBG	2005	₩ 70 billion	530
	2008	₩ 101 billion	630
One & One	2005	₩ 35 billion	227
	2008	₩ 71 billion	302
Bon IF	2008	₩ 53 billion	1,050
	2009	₩ 65 billion	1,200
The Born Korea	2008	₩ 5 billion	155
Donenoo	2008	₩ 54 billion	84
	2009	₩ 120 billion	200
Chesundang	2008	₩ 15 billion	111
	2009	₩ 25 billion	135

Table 14: Profile of Major Quick Svc Korean Food Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
O2 Space	2008	₩ 55 billion	304
	2009	₩ 110 billion	608
Gimgane	2008	₩ 84 billion	351
	2009	₩ 85 billion	354
Yamsam	2008	₩ 19 billion	45
	2009	₩ 29 billion	68
Hogyung FC	2008	₩ 9 billion	163
	2009	₩ 10 billion	200

Table 15: Profile of Major Bar & Pub Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
---------	------	--------------	--------------

Rich Food	2008	₩ 190 billion	506
	2009	₩ 171 billion	514
Into FC	2008	₩ 105 billion	256
	2009	₩ 116 billion	281
DIZ	2008	₩ 51 billion	168
	2009	₩ 61 billion	213
F&D Partners	2008	₩ 8 billion	39
	2009	₩ 16 billion	57
Cheers	2008	₩ 11 billion	134
	2009	₩ 15 billion	197

3. Institutional Food Service Segment

Institutional food service segment maintains a solid growth as more office workers and students are seeking quality meal options at affordable price. It is a general practice in Korea that private companies and public offices provide complimentary meals to employees as part of the compensation package. Many offices that operated in-house institutional restaurants in the past are switching to outside commercial operators for quality and efficiency. In addition, all schools, except colleges, are now regulated to provide lunches to the students.

The growth of the commercial institutional feeding segment is mainly driven by a handful of leading players, all of them subsidiaries or affiliated companies of local conglomerates. The leading players are currently closing down small-scale outlets to focus on big volume clients for economy-of-scale, which leaves behind some room for smaller players to grow. For example, CJ Freshway withdrew from the middle/high school segment a couple of years ago.

Table 16: Profile of Major Institutional Food Service Companies ^[19]

Company	Year	Annual Sales	# of Outlets
Samsung Everland	2005	₩ 410 billion	500
	2008	₩ 670 billion	400
Ourhome	2005	₩ 355 billion	580
	2008	₩ 900 billion	800
Hyundai Foodsystem	2005	₩ 270 billion	320
	2008	₩ 332 billion	N/A
Shinsegae Foodsystem	2005	₩ 168 billion	400
	2008	₩ 419 billion	N/A
CJ Freshway	2005	₩ 200 billion	580
	2008	₩ 680 billion	N/A
Hanwha Hotel & Resort	2005	₩ 115 billion	218
	2008	₩ 190 billion	295

Arako	2005	₩ 100 billion	360
	2008	₩ 135 billion	300
Dongwon Home Food	2008	₩ 125 billion	215
ECMD	2005	₩ 103 billion	300
	2008	₩ 155 billion	350

Most of the leading companies have diversified into regular restaurant businesses, including food courts, cafeterias, bars, coffee shops, bakery shops and premium restaurants. Some of the leading companies have also expanded into the food service distribution business that offers a broad line of products to outside restaurants. It is expected that the distribution business arms of these institutional food service companies will someday evolve into separate, independent broad-line food service distribution companies.

Section III. Competition

Domestic products, both raw and processed, comprise a major competition to many U.S. products. Although limited in variety and production season, Korean agriculture produces a considerable amount of raw agricultural products, including rice, fresh vegetables (cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom, garlic, etc.), fresh fruits (apple, pear, grape, tangerine orange, strawberry and water melon), seafood (both farmed and wild caught), pork meat, chicken meat, egg and milk. In addition, Korea has a strong processed food industry that manufactures a wide variety of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, beverages, snacks, dairies and liquors. Domestically produced products in general better reflect the tastes and consumption trends of local consumers than imported products. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willingly pay premium on locally produced products.

Table 17: Korea's Sufficiency Rate for Agriculture and Fishery Products (2005)

Grains	Peas	Beans	Vegetables	Fruits	Meat	Egg	Milk	Seafood	Fat/Oil
29.3%	98.3%	10.7%	94.5%	85.6%	81.6%	100%	72.8%	64.3%	2.8%

Source: Korea Rural Development Institute

For raw agricultural products and input ingredients for the local processing industry that are not grown or manufactured in Korea, U.S. products face increasing competition from imported products from export-oriented countries. Products from competitor countries, including China, Australia, Chile and Thailand, in general offer lower prices than U.S. products and, thus, are quickly building up market shares. China, for example, has become the leading supplier of fresh and processed

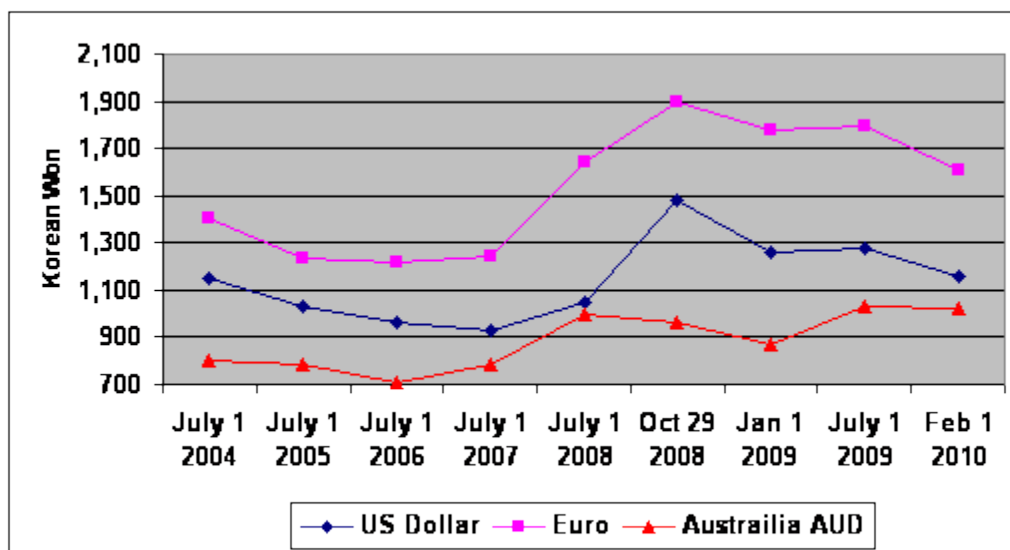
vegetables, sauces, spices and seafood to the Korean food service sector. In addition, increased demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins, including European and South Asian countries.

Lifting of import barriers directly affects competition in the market. Many local products have lost price and availability competitiveness when protective import barriers were removed, which is expected to happen continuously in the coming years with the progress of WTO negotiations and bi-lateral free trade agreements (FTA). For example, since the implementation of the Korea-Chile Free Trade Agreement in April 2004, Chile has quickly stepped up to a leading exporter of wine and fresh fruits to Korea. Korea has concluded additional FTAs with Singapore, EFTA and EU, and is currently engaged in FTA talks with several other countries, including India and China. The Korea-U.S. Free Trade Agreement (KORUS FTA) concluded in early 2007 is expected to create opportunities for U.S. exporters. The KORUS FTA is currently pending in the National Assembly of Korea and the U.S. Congress for ratification. More details of the KORUS FTA, in particular agreed effects on the exports of American agricultural products to Korea, can be found in the following USTR website: <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text>

As tariff barriers decline and trade in food products increases, food safety issues are becoming more prevalent. Restriction of imports from certain countries results in replacement imports from competing countries, as seen in the import ban on the U.S. beef for BSE issue. Consequently, in an effort to maintain a stable supply, local food service importers in general prefer to transact with more than two different countries especially for potentially risky items, such as meat (chicken, pork and beef) and fresh fruits (orange and grape).

Price of imported products sold in Korea is directly affected by change of exchange rate between the exporting country's currency and Korean won. As a result, fluctuation of exchange rate brings change of price competitiveness among products from different origins. The drastic plunge of the value of Korean won against U.S. dollar and European euro that happened from October 2008 through the first half of 2009 has made local importers and distributors extremely conservative with respect to new purchase decisions. Korean won has recovered strength and stability against U.S. dollar since the second half of 2009 along with the recovery of the international financial market. It is notable that leading international economic institutes have forecasted a trend of weaker U.S. dollar against other major international currencies in the coming years, which would make American products more price competitive in Korea.

Figure 9: Change of Exchange Rate of Korean Won



Source: Korea Exchange Bank

IV. Best Product Prospects for U.S. Exporters

A. Products Present in the Market Which Have Good Sales Potential ^[20]

1. Beef meat: Although still facing some negative consumer image problem related to BSE issue, U.S. beef (both chilled and frozen) has a good prospective in the Korean food service sector as traders in general have a good understanding about the value and taste of grain-fed American beef. Partial lifting of import restriction on U.S. beef implemented in 2008 allowed boneless and bone-in meat with no specified risk material (SRM) from cattle under 30 months of age from preapproved packing houses to reenter the Korean market. As a result, imports of U.S. beef have increased sharply to reach \$273 million in 2009, up 41 percent from the previous year.

2. Pork meat & bone: Although Korea has a large domestic supply of pork meat, local demand is highly skewed to the belly cut, which has resulted in a strong need for imports. Korea also has a significant demand for pork neck bone and spine bone for popular local stew recipes. Restaurants are the main user of imported pork meat and bone while. A total of \$184 million of U.S. pork meat was imported into Korea in 2009, down 19 percent from the previous year.

3. Processed meats (sausages, hams): Due to easy application, a wide variety of menus served in Korea incorporate processed meat products. Fast food, bars and buffet restaurants are the main users of these products. Imports of sausages (HS1601) from the United States declined 4 percent to \$17 million in 2009 while imports of other prepared/preserved meat (HS0210, HS1602) declined 46

percent to \$11 million.

4. Chicken meat (frozen): Korea has a large number of quick service/home delivery fried chicken restaurants and thus has a strong demand for imported chicken meat. Local taste favors legs and drum sticks over wings. Total imports of chicken meat from the United States totaled \$42 million in 2009, down 27 percent from the previous year.

5. Seafood: Korea is an outstanding seafood market with good growth potential for imported products. The domestic supply is decreasing due to the depletion of near sea fishery resources and increased international restrictions on deep-sea fishing. Imports from the United States amounted to \$5 million for live fish, up 12 percent from the previous year, \$66 million for frozen fish (not fillet), up 12 percent, \$36 million for fish fillets, down 38 percent, \$4 million for crustaceans and mollusks, down 17 percent, and \$2 million for preserved crustaceans, down 32 percent, in 2009. Major species currently imported from the United States include: Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, and prepared sea cucumber.

6. Processed fruits and nuts: Processed fruits and nuts are gaining popularity for their natural and healthy image, which results in introduction of more recipes that incorporate these products. Products currently imported from the United States include: dried, frozen, or preserved prunes, cranberries, cherries, strawberries, grapes, figs, blueberries, walnuts, almonds, pistachios, pecans and peanuts. Imports from the United States amounted to \$25 million for preserved fruits and nuts (HS2008), \$2 million for jams (HS2007), \$37 million for fruit juices (HS2009), \$3 million for processed fruits & nuts (HS0811), and \$3 million for dried fruits (HS0813).

7. Tree nuts: Korean consumers are well aware of health benefits of eating tree nuts (in particular almond and walnut), which is translated into growing demand in restaurants and bakery shops. Total imports of tree nuts from the United States amounted to \$98 million for nuts (HS0802) in 2009.

8. Fresh fruits: Despite import barriers maintained on many fresh fruits, Korea imports a significant amount of fresh fruits from the world. Major American fruits imported to Korea include: citrus (\$84 million), grapes (\$12 million), and cherries (\$24 million).

9. Vegetables (fresh, frozen, canned or prepared): Although Korea is self-sufficient in many varieties of fresh vegetables, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties are resulting in an increased demand for imports. China has emerged

as the leading supplier of vegetables to the Korean food service sector in both fresh and processed category; however, there remains a solid demand for a limited variety of high-quality U.S. products. Major products imported from the United States include processed vegetables (\$73 million, HS2004, HS2005), preserved tomatoes (\$9 million, HS2002), vegetable pickles (\$5 million, HS2001), frozen or dried vegetables (\$6 million, HS0710, HS0712, HS0713) and fresh vegetables (\$5 million - mostly potatoes and lettuce).

10. Cheese and processed dairy products: Introduction of more diverse recipes, in particular by the thriving bakery shop segment, incorporating dairy ingredients are resulting in a growing demand for imports. Proliferation of wine bars is also contributing to the increased demand in the sector for imported cheeses. Imports of cheese from the United States amounted to \$38 million in 2009.

11. Alcohol Beverages (wine, beer and hard liquors): Korea has a large number of bars and pubs. Demand for products with health benefits and lower alcohol content remains strong. Imports from the U.S. amounted to \$11 million for wine, \$6 million for beer and \$7 million for hard liquors in 2009.

12. Coffee: On-going expansion of franchise cafe chains results in an increased demand for imported coffee. Imports of coffee from the United States grew 13 percent to \$22 million in 2009 despite the sluggish economy.

13. Sauces: With introduction of more diverse foreign recipes, demand for imported sauces continues to rise. Imports of sauces (HS2103) from the United States declined 4 percent from the previous year to \$19 million in 2009.

14. Bread, pastry, cakes: Due to the proliferation of bakery shop segment, imports of related products are on an increase. Imports of bread, pastry and cakes (HS1905) from the United States amounted to \$46 million in 2009, down 9 percent from the previous year.

B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

1. Rice: Restaurant segment is a major user of imported rice which became available by the rice trade agreement that Korea signed in early 2006 with exporting countries. Imported rice, including American rice, is expected to gain further market share in the segment as the agreement was made to gradually increase the volume of imported rice for open access to the commercial market. In particular, American suppliers have the capacity to export medium grain variety that Koreans prefer. However, traders point out that imported rice, including medium grain variety from the

U.S., in general have different taste and texture profile compared to local rice, and therefore suppliers should provide technical and marketing support as well to help educate the local consumers.

2. Pasta: Italian cuisine is gaining popularity, resulting in increased demand for related products, including pasta noodles. Among \$86 million of pasta products imported in 2009, imports from the United States amounted to less than \$1 million. However, importers are showing bigger interest in American pasta as the value of euro is likely to rise against U.S. dollar. In addition, the 8 percent import duty that is currently applied to U.S. origin spaghetti and macaroni products would be reduced to zero over 5 years after the Korea-United States Free Trade Agreement goes into effect.

3. Olive oil: Consumption of olive oil is on a rapid increase as restaurants as consumers are seeking for healthier alternatives to conventional soybean oil. However, among \$33 million of olive oil imported in 2009, imports from the United States amounted to less than \$1 million.

4. Butter: Among \$13 million of butter imported into Korea in 2009, imports from the United States were only \$0.4 million. Although facing tough competition from export-oriented countries including New Zealand and EU, there is a good market potential in Korea for American butter as many local consumers are aware of the leading American butter brands.

5. Ingredients for Tex-Mex and Cajun cuisine: Many traders agree that Tex-Mex and Cajun cuisine have a good potential in Korea as Korean consumers have a strong preference for hot, spicy dishes. However, few local chefs have enough knowledge and experience with these new to market cuisines.

6. Processed turkey meat: Many Korean consumers still maintain a negative view on turkey meat. However, processed turkey products (hams in particular) are likely to gain more local followers, especially among young consumers who have traveled to the United States and have developed tastes for related dishes.

7. Premium seafood: Products such as lobster, crabs (King, Snow and Dungeness), black cod and wild-caught Sockeye salmon have a good niche potential in the high-end segment of the food service sector as affluent consumers are looking for premium, healthier alternatives to meat dishes.

8. Processed eggs (fluid, frozen and flour): More restaurants and bakery shops are expected to switch to processed egg products such as shelled or powdered for food safety and efficiency. Imports of shelled egg products from the United States amounted to \$2 million in 2009.

9. Frozen prepared products: Demand for frozen prepared products such as frozen soups, frozen dough and frozen dessert, that offer longer shelf life and labor-saving convenience is likely to increase in the food service sector in the coming years.

10. Frozen or preserved berries: Demand for berries, including blueberries, black currants and cranberries, is likely to increase in the food service sector as consumers are developing bigger interest in recipes incorporating these specialty fruits for new taste and health benefits. Due to phytosanitary issues, no fresh berries are currently exportable to Korea and as a result traders are relying on frozen or preserved products. In case of black berries and raspberries, even frozen products are not exportable to Korea.

11. Processed organic products: Restaurants are likely to introduce more organic recipes targeting the on-going well-being consumption trends.

12. Many imported agricultural products, including honey, fresh potatoes, fresh onions and popcorn, are subject to high tariffs and tariff rate quotas (TRQs) that restrict open market access. However, on-going trade negotiations are likely to reduce some of these barriers in the coming years.

C. Products Not Present Because They Face Significant Barriers

1. Korea utilizes a “positive list” system for importing fresh agricultural products meaning imports of any product that is not pre-approved in the Korean government regulation is prohibited. Because of the risk of transferring pests, trade of fresh fruits and vegetables are only possible when the importing country (Korea) approves phytosanitary standards of the exporting country (the United States) through a pest risk assessment, which takes a considerable amount of time as it involves extensive amount of both laboratory and field studies. Many fresh fruits from the United States, including apple, pear, peach and berries, are currently not importable as there are no phytosanitary import agreements established on these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary reasons such as outbreaks of fruit flies. The internet home-page of the Korean National Plant Quarantine Service has up-to-date information on plant (including fresh fruits and vegetables) import restrictions and regulations in English (www.npqqs.go.kr). Outbreaks of animal diseases, such as swine cholera, avian-flu virus, and BSE, also restrict imports of related animal products into Korea. U.S. suppliers may contact established importers or ATO Seoul for up-to-date import restriction

information and regulation on animal products. Related products include:

(1) Korean government still maintains import restrictions on American beef as of February 2010. Meat from cattle over 30 months of age regardless of the presence of Specified Risk Material (SRM) is still prohibited. Furthermore, American-origin processed products that contain beef ingredients, including beef jerky and processed pet food, are not allowed for imports into Korea.

(2) Lamb meat: Imports of products from all ruminant animals, except beef, are still banned for potential BSE risk. Korea imported a total of \$15 million of lamb and goat meat in 2009.

(3) Korea maintains an import ban on elk antlers from the United States due to the Chronic Wasting Disease. Consequently, American elk antler industry, which exported \$24 million to Korea in 2006, currently has no access to the Korean market. Antler is an important component of the herb medicine in Korea and is often incorporated into restaurant recipes as a functional ingredient.

3. Fresh organic vegetables and fruits: there are technical barriers that prohibit imports of fresh organic produce. Korean regulation does not accept USDA organic certificates for fresh produce. In addition, there is a high chance for imported fresh vegetables and fruits to be fumigated with chemical agents to prevent potential pest risk during the customs clearance process, which will disqualify the product from “organic” status. This fumigation can also damage the quality of fresh produce and shorten the shelf life.

4. The Korean Food Additive Code defines specifications and usage standards for individual food additives. Korea utilizes a “positive list” system for food additives meaning any food additive not listed in the code is prohibited. As of July 2009, the code listed 616 approved food additives and the usage standard for each additive on a product-by-product basis. The Korean standard differs from the CODEX standard in some cases and consequently may prohibit entry of American products manufactured solely under the CODEX standard. The home-page of Korea Food & Drug Administration (<http://fa.kfda.go.kr/foodadditivescode.html>) provides detailed information about the food additive code in English. Working with an established importer is the most efficient way to check whether a new-to-market product would meet the Korean standard or not.

V. Key FAS/USDA Contacts and Further Information

For further information about the Korean agricultural market, please contact:

U.S. Agricultural Trade Office

Korean Address: Room 303, Leema Building

146-1, Susong-dong, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

Telephone: 82-2-397-4188 Fax: 82-2-720-7921

E-mail: atoseoul@fas.usda.gov

Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: 82-2-397-4297 Fax: 82-2-738-7147

E-mail: agseoul@fas.usda.gov

For more information on how you can register for USDA/FAS' Supplier List:

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at

http://www.fas.usda.gov/agx/partners_trade_leads/us_suppliers_list.asp

For further information about sanitary and phytosanitary requirements, please contact:**U.S. Animal Plant and Health Inspection Service (APHIS)**

Korean Address: Room 303, Leema Building

146-1, Susong-dong, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550

Telephone: 82-2-725-5495 Fax: 82-2-725-5496

E-mail: yunhee.kim@aphis.usda.gov

Website: www.aphis.usda.gov

For information about activities by Strategic Trade Regional Groups, please contact:

Food Export Association of the Midwest USA

309 W. Washington St., Suite 600

Chicago, Illinois 60606

Telephone: 312-334-9200 Fax: 312-334-9230

E-mail: tmiller@foodexport.org

Website: www.foodexport.org

Western United States Agricultural Trade Association (WUSATA)

2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA

Telephone: 360-693-3373 Fax: 360-693-3464

E-mail: janet@wusata.org

Website: www.wusata.org

Food Export USA - Northeast Region of the United States

150 S. Independence Mall West, 1036 Public Ledger Building

Philadelphia, PA 19106, USA

Telephone: 215-829-9111 Fax: 215-829-9777

E-mail: jcanono@foodexportusa.org

Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)

2 Canal Street Suite 2515, New Orleans, LA 70130, USA

Telephone: 504-568-5986 Fax: 504-568-6010

E-mail: jim@susta.org

Website: www.susta.org

For information on the commercial and industrial products in Korea, please contact:

U.S. Commercial Service

Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550

Telephone: 82-2-397-4535 Fax: 82-2-739-1628

E-mail: Seoul.office.box@mail.doc.gov

Homepage: www.buyusa.gov/korea

- ^[1] Korea in this report refers to South Korea only
- ^[2] About \$70 (\$1 = ₩ 1,150 as of Feb. 1 2010)
- ^[3] Source: Household Monthly Expenditure Survey, Korea National Statistics Office
- ^[4] Roughly speaking, there is one restaurant per every 100 Koreans.
- ^[5] Source: Korea National Statistics Office, Unit: 1,000 people
- ^[6] Gross Domestic Production Annual, GDP (source: Bank of Korea, IMF)
- ^[7] Gross National Income Annual, GNI (source: World Bank) Both Korean GDP and GNI in \$US term are likely to shrink sharply in 2009 due to weakening of local currency against \$US under global economic depression.
- ^[8] Las Vegas, May 10-13, 2010 (www.fmi2010.com)
- ^[9] Chicago, May 22-25, 2010 (www.restaurant.org/show)
- ^[10] Seoul, May 12-15, 2010 (www.seoulfood.or.kr)
- ^[11] 'Same Product from Same Origin' rule allows documentary inspection for products that have been imported in the past. However, existing products are also subject to "random" detailed chemical inspections.
- ^[12] Source: Monthly Food Journal and company interviews. Companies in this list, except Foodmerce and Korea Tourist Supply Center, also operate commercial restaurant and contract feeding business.
- ^[13] Source: Wholesale & Retail Industry Statistics, Korea National Statistics Office, Unit: Million won
- ^[14] Source: Korea Tourism Agency, Unit: Number of people, \$1,000
- ^[15] Source: Ph.D. Na, J.K., Understanding Food Service Industry (1998), Industry news articles, Expert interviews
- ^[16] Source: Wholesale & Retail Industry Statistics, Korea National Statistics Office, Unit: Million won
- ^[17] Traditional local hard liquor similar to vodka but now made from imported tapioca. It contains about 17-25% of alcohol.
- ^[18] Source (Table 9-16): The Monthly Restaurant (Feb. 2010), The Monthly Food Journal (April 2009), Unit: Korean won
- ^[19] Source: Korea Food Distribution Yearbook 2007, The Monthly Restaurant (Feb. 2010), Unit: Korean won. Annual sales revenue of some of the companies in the table includes sales revenue from product distribution business.
- ^[20] Readers should note that Korea's overall imports of agricultural products in 2009 declined 18 percent from the previous year across the board largely due to the global economic depression that took place in the second half of 2009.